

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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TO SECSTATE WASHDC PRIORITY 9046

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USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. BALANCE OF PAYMENTS FOR DECEMBER REGISTERED DEFICIT OF \$95 MILLION, RESULTING IN CUMULATIVE ADJUSTED DEFICIT IN 1974 OF \$7,555 MILLION. DECEMBER DEFICIT

FOLLOWED NOVEMBER DEFICIT OF \$484 MILLION, OCTOBER

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DEFICIT OF \$594 MILLION, AND ADJUSTED SEPTEMBER DEFICIT OF

\$21 MILLION. \$5 BILLION CURRENT ACCOUNT DEFICIT OF 1975
FORCASTED BY BANK OF ITALY. BANK OF ITALY INTERVENTION
WAS HEAVY IN FIRST HALF OF DECEMBER AND NEGLIGIBLE IN
SECOND HALF RESULTING IN NET \$91 MILLION INTERVENTION FOR
MONTH. LIRA STRENGTHENED IN EXCHANGE MARKET IN LATTER HALF
OF DECEMBER. INTERVENTION CHARACTERIZED AS "HEAVY" DURING FIRST
HALF OF JANUARY, ACCORDING TO BANK OF ITALY, WITH WIDE DAILY
VARIATIONS. FAVORABLE BALANCE OF PAYMENTS PERFORMANCE IN
DECEMBER PARTLY THE RESULT OF SOME BANK CAPITAL INFLOW
WHICH OCCURS FOR "WINDOW DRESSING" PURPOSES. SECOND DRAWING
FROM IMF OIL FACILITY AS REPORTED EARLIER OF \$505 MILLION
MADE ON DECEMBER 4. END SUMMARY.

2. MONETARY MOVEMENTS DATA FOR DECEMBER RECORD DEFICIT OF
\$95 MILLION. MAIN DEVELOPMENTS DURING PERIOD WERE INCREASE
OF \$523 MILLION IN BOI MEDIUM AND LONG-TERM LIABILITIES AND
INCREASE IN GOLD AND CONVERTIBLE CURRENCY HOLDINGS OF
\$466 MILLION. BOI SHORT-TERM LIBAILITIES INCREASED BY
\$19 MILLION, COMMERCIAL BANKS NET FOREIGN LIABILITIES
INCREASED BY \$14 MILLION, AND BOI SDR HOLDINGS DECREASED
BY \$4 MILLION.

3. RECORDED 1974 BALANCE OF PAYMENTS DEFICIT WAS \$5,435
MILLION AND ADJUSTED 1974 DEFICIT (INCLUDING EUROMARKET
BORROWINGS OF \$2,150 MILLION LESS \$30 MILLION BNL REPAY-
MENT) WAS \$7,555 MILLION. DEFICIT WAS FINANCED BY INCREASE IN
BOI MEDIUM AND LONG-TERM LIABILITIES OF \$5,608 MILLION
(INCLUDING EC CREDIT, GERMAN GOLD COLLATERAL LOAN, IMF
STANDBY LIABILITIES, AND IMF OIL DRAWINGS), INCREASE IN
BOI GOLD AND CONVERTIBLE CURRENCY HOLDINGS OF 998 MILLION, IN-
CREASE IN NET SHORT-TERM BORROWINGS OF COMMERCIAL BANKS
OF \$580 MILLION, DECREASE IN NET IMF POSITION BY \$359
MILLION AS RESULT OF DRAWIN-DOWN OF SUPER GOLD TRANCHE,
REDUCTION IN GOI SHORT-TERM LIABILITIES OF \$304 MILLION
(MAINLY REPAYMENT OF EC SWAP WITH BELGIAN CENTRAL BANK),
AND REDUCTION IN GOI SDR HOLDINGS OF \$190 MILLION.

4. MARKET INTERVENTION IN DECEMBER TOTLED \$91 MILLION,
SHARPLY DOWN FROM NOVEMBER FIGURE OF 499 MILLION. HEAD GOI
FOREIGN EXCHANGE OPERATIONS, ERCOLANI, INDICATED THAT DECEMBER
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INTERVENTION WAS SLIGHT AND BALANCE OF PAYMENTS DEFICIT FIGURE
LOW PARTLY BECAUSE IN DECEMBER THERE IS SOME INFLOW OF BANK
CAPITAL FOR "WINDOW DRESSING" PURPOSES. HOWEVER, ERCOLANI CHAR-
ACTERIZED INTERVENTION IN FIRST 15 DAYS OF JANUARY AS "HEAVY"
WITH WIDE DAILY VARIATIONS, E.G., \$80 MILLION IN SALES ON JANUARY 14
AND \$56 MILLION IN PURCHASES ON JANUARY 15. ERCOLANI,
IN ASSESSING THE PROSPECTS FOR 1975, ESTIMATED A CURRENT
ACCOUNT DEFICIT OF \$5 BILLION. HE WAS, HOWEVER, LESS

SANGUINE ABOUT OVERALL BALANCE IN 1976 WHEN APPROXIMATELY
\$3.5 BILLION IN FOREIGN DEBT AND INTEREST PAYMENTS BECOME
DUE.

5. ON JANUARY 15, LIRA EXCHANGE RATE WAS 651.30 LIRE
PER DOLLAR. THREE-MONTH FORWARD RATE WAS 661.05.
WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING TO BOI
INDEX, WAS 21.87 PERCENT, SLIGHTLY UP FROM RECORD 1974
LOW OF 21.96 REACHED ON DECEMBER 17TH. JANUARY 15
THREE-MONTH EUROLIRA INTEREST RATE WAS 14.5 PERCENT,
LIRA INTERBANK FORTY-EIGHT HOUR RATE WAS 14.9375, AND
THREE-MONTH RATE 15.625. VOLPE

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